

A Milestone Achieved in Montana's Glacier Park The First CMS-Approved "Necessary-Provider" CAH Relocation Project

By Alan P. Richman, President and CEO of InnoVative Capital LLC and Craig E. Aasved CEO of North Valley Hospital

For more than 100 years, when the residents of Whitefish, Mont., a former logging and railroad town just 30 minutes from Glacier National Park, needed hospital care, they looked no further than North Valley Hospital. By 2002, the management and board of North Valley knew their facility, rebuilt in 1971, was near the end of its useful life. Local sentiment insisted the hospital could continue to meet the general healthcare needs of its residents, but North Valley management realized Whitefish's growing population of 29,000 required a modern facility.

In conjunction with its management company, QHR, North Valley focused on enhancing its emergency, obstetrical and surgical care while growing its outpatient practice. The board determined it was financially impractical to renovate the existing hospital and ratified a plan to seek financing for a new facility on a nearby parcel of land. To fund this project, North Valley selected the FHA Section 242 Mortgage Insurance Program to secure a low-interest loan.

North Valley Hospital's path was clear, but management faced multiple hurdles in deciding to embark upon the most ambitious critical access hospital project financing (\$29 million) to date. It would require the hospital to maneuver through financial and regulatory hurdles, make tough operational decisions, build a community consensus and meet weather-induced construction deadlines. But it paid off in August 2005, when North Valley began construction of its new 73,000 square foot, 25-bed hospital. The hospital closed its HUD-guaranteed loan in December 2005 and the new facility is scheduled to open in fall 2007.

Deciding to move

Early in the planning process, the board committed itself to relocating the hospital to a campus-oriented setting rather than undertaking a complex renovation of its current facility, which would involve temporarily closing parts of the hospital and severely inconveniencing hospital operations for two or more years.

North Valley paid \$1.4 million for a 45-acre, greenfield site 1 mile from the existing hospital. The new campus is highly visible from the highway and town and serves as a linchpin of economic development in this planned growth corridor of Whitefish. An upscale housing development already is under construction nearby. To address the concerns of community members who protested the move, North Valley appointed an independent advisory council to review its site-selection process. The council completed its due diligence and recommended the hospital relocate to the new site.

Designing the hospital

North Valley sought community input in the hospital development process and determined that both local architectural considerations and a family orientation were necessities. Management agreed the Planetree design concept would best meet these objectives, as it emphasizes healing through the physical environment and includes natural features such as waterfalls, gardens and fish tanks, as well as space for families to relax, pray and study together and room for guests to spend the night near patients.

Project affordability

The combination of the Planetree design and the hospital relocation meant North Valley was staring at a \$29 million financing budget. This project would require serious soul-searching and financial planning to accumulate the cash required to pay project-related bills before North Valley received a loan, and also demonstrate the hospital could pay the estimated debt service on its FHA loan.

On the expense side, North Valley closed its 56-bed nursing home to eliminate an annual \$1 million subsidy it paid to maintain the facility. North Valley also applied for critical access hospital (CAH) status, under the now expired, “necessary-provider” designation in order to enhance its reimbursement capacity. With the support and assistance of the Montana Department of Health, QHR, and the neighboring Kalispell Regional Medical Center, the hospital was granted CAH status in November 2003. Now armed with Medicare and Medicaid cost-based reimbursement, North Valley’s independent financial feasibility study demonstrated its unquestioned ability to afford the project.

Why FHA Mortgage Insurance?

- With the bulk of its limited cash position already allocated to fund the project development costs, North Valley knew it would have little cash to contribute at loan closing.
- As a nonprofit hospital, North Valley received no tax support to supplement its operations; therefore, an affordable interest rate was a necessity.
- North Valley’s planned project represented the most ambitious budget that had ever been contemplated for a CAH. Finding a financing source conversant with rural hospitals was a must.
- North Valley recognized the risks associated with a variable loan and realized it needed a fixed-rate loan.

The FHA Section 242 guaranteed loan combined both construction and permanent financing into one 28-year loan. With a fixed rate, the hospital would not be exposed to the variable rate risks associated with most U.S. Department of Agriculture Guarantee Loans. At \$29.25 million, the loan amount was well within the size of most of the loans in HUD’s outstanding hospital portfolio and from the outset of its underwriting process, HUD was undeterred by the unprecedented size of this CAH loan.

Hurdles to conquer

A complication arose in June 2005 as North Valley awaited HUD approval. The Center for Medicare & Medicaid Services (CMS) proposed new regulations for critical access hospitals, which would revoke the CAH status for any “necessary provider” CAH that relocated to a nonadjacent site. However, in September 2005, CMS enacted regulations that were less onerous and in fact, permitted “necessary provider” relocations that complied with requirements for the hospital’s maintenance of operations and patient treatment at the new site consistent with the former location.

North Valley still needed to get approval from CMS for its relocation, and the administration of North Valley knew it would be the first CAH to do so. After a grassroots campaign, which resulted in more than 4,000 letters from community members and the strong support of U.S. Sen. Max Baucus of Montana, CMS issued a letter confirming North Valley's compliance with the regulations pertaining to its relocation.

The CMS regulatory process took its toll on the loan financing schedule and pushed back the HUD loan closing three months to December. Whitefish's arctic winters can begin in October and North Valley officials knew they would have to commence the project prior to the loan closing. With the assistance of a \$7 million loan from the Whitefish Credit Union, and the approval of an early-start from HUD, North Valley was able to complete all the ground work and site preparation prior to the first freeze and avoid mothballing construction until April 2006.

What now?

Now that the FHA insured loan has closed, North Valley has repaid its bank loan, reimbursed itself for its out-of-pocket expenses and has begun receiving monthly construction disbursements to pay for its project. With the certainty of its new hospital assured, North Valley is well into a successful capital campaign that already has raised over two-thirds of its stated goal of \$6.3 million. One other unanticipated bonus for North Valley has been the immediate positive impact that news of the new hospital has had on local real estate values, which was evident in the price North Valley has received for the sale of its existing facility, which has exceeded original estimates made a few years ago, by a whopping 700%.